



**THE STATE OF VERMONT
CLAIMS AUDIT OF SELF FUNDED LIABILITY
AND WORKERS' COMPENSATION PROGRAMS
AS OF AUGUST, 2007**

PURPOSE

Carom Data, LLC (“Carom”) was requested by the State of Vermont (the State) to perform an audit of their in-house claims settlement process for the State’s automobile liability, general liability and workers' compensation self funded programs. The purpose of the audit was to review and assess the State’s ability to successfully manage the claims associated with their self-insured program. This assessment included a review of claim file documentation, reserve setting processes, and overall claims department management.

DISTRIBUTION AND USE

This report has been prepared for the internal use of the management of the State in their assessment of their in-house claims settlement process. It is our understanding that the State will distribute this report to its independent actuary and its auditors and this report may become a public document. We request that all distributions of this report be made in its entirety. We do not authorize any other use or distribution without our prior consent.

CONDITIONS AND LIMITATIONS

Carom performed an on-site review of the State's claim settlement practices on August 29th and 30th, 2007. The review was coordinated by Mr. Bill Duchac of the State's Risk Management Division. Carom was provided a list of all open claim files at that time and selected 21 workers' compensation claim files and 4 liability claim files. The selection of claim files involved considerations regarding the type of injury, the length of disability, and the total overall cost of the claim.

FINDINGS AND RECOMMENDATIONS

1. Workers' Compensation Claim Settlement Process

A. Reserving Process

In our opinion, all of the claims reviewed by Carom indicated an adequate level of reserves given the unique characteristics of each claim. Changes in reserves on specific claims were generally reflected immediately upon the adjuster learning of additional information. In addition, consideration was given to projections made by the treating physician with regards to the amount of time needed to return to 100% capacity. The files contained adequate documentation regarding changes in reserves and the reason for such changes.

B. Investigations

In our opinion, the investigative process employed by the adjusters made excellent use of ISO checks with due consideration given to issues of causality and pre-

existing conditions. In addition, we note that in the majority of cases, correspondence between the nurses assigned to each case and the treating physician resulted in better communication and more effective results.

We did note, however, that none of the claim files we reviewed indicated a use of recorded statements. In our opinion, the use of recorded statements can be useful when a case continues for many years. We recommend that the State investigate the possibility of taking recorded statements in the future (see RECOMMENDATIONS below).

We did not see a great deal of surveillance being done in most cases. However, in our opinion this is not necessarily a negative, since surveillance is generally only useful in cases that involve clear indications of fraud.

C. Case Management

In our opinion, the State is reaping excellent rewards through the use of their case management “team” approach. Some of the many benefits we noted based on this approach included:

- Avoidance of medical office errors in the scheduling of injured workers;
- The ability to keep treatment programs on track;
- Immediate follow-ups regarding the results of therapy, medications, injections and surgery;
- Timely letters to physicians to determine issues of causality and the extent of recovery; and
- The ability to have nurses schedule appointments for injured workers in a more timely manner.

We believe that the State's use of the case management "team" approach is extremely effective in terms of obtaining superb case outcomes and cost controls.

D. Communication with Injured Workers

In our opinion, controlling the behavior of injured workers can result in significant cost savings if done successfully. During our review, we noted excellent communication between the adjusters and the injured workers. We did not notice any adversarial relationship with claimants in any of the claim files we reviewed individually. We noted that all claimants were treated with due amounts of dignity and respect.

In addition, we noticed frequent communications between the adjusters, nurses, and injured workers. In the majority of cases, injured workers were contacted at least once a week by either the adjuster or the nurse and in some cases, injured workers were contacted more frequently. We believe that this approach has been extremely effective in controlling overall cost levels.

2. Liability Claim Settlement Process

It is our understanding that the State has only recently taken over responsibility for adjusting and settling general liability and auto liability claims. Of the four claims we reviewed in detail, there was some indication that certain files lacked appropriate documentation and the State should be more aggressive in trying to settle claims in a more timely manner. However, as these claims are relatively new and the State has not yet fully developed appropriate procedures, Carom recommends that a more thorough audit of this process be conducted after a suitable time period has elapsed. It

has been suggested that next year will be an appropriate time to fully evaluate the liability claims settlement process.

RECOMMENDATIONS AND CONCLUSIONS

Overall, we believe the State's workers' compensation claim settlement process is superior to many that exist in the private sector from the standpoint of controlling costs, maintaining good relationships with the medical community, and maintaining positive relationships with injured workers and their families. As noted above, we believe it is too early to properly assess the liability claims handling process given the relatively short time period since the State has assumed control for these. However, we do have several recommendations that in our opinion will further improve the state's overall process:

1. Take Recorded Statements - This is a technique that helps to keep injuries from "wandering" and can be a powerful defense tool years down the road when memories of injuries and pain have long since disappeared. We understand that the claims department has already taken steps to get electronically equipped to take statements in the months ahead.
2. Consider Expanded Use of Medical Consultants – During our review, we discovered substantial resistance by the hearing officers to accept testimony from IME physicians. For this reason, we suggest that the current medical director be used to clarify medical issues with the attending physician so as to

eliminate the need for any IME's. This can be done by having the medical director review medical records and then, in conjunction with the adjuster and nurse, structure a letter that will go out under the medical director's signature with the intent of leading the attending physician to consider another medical opinion which may cause them to re-consider their previous opinion based on new medical information.

3. Use of Reconstruction Experts - In cases of minor impacts or falls where it appears that the injury is out of proportion to the initial trauma, it was suggested that the claims department consider the trend of using a minor impact reconstruction expert to assist in preparing an appropriate defense as to causality.
4. Adopt "Fresh Look" Approach - It was further suggested that a "fresh look" approach be used on cases where the claim has gone on for 6 months. This approach would involve exchanging the claims with other teams who would do their own internal review and offer handling suggestions to help bring the case to closure. This would supplement the Legacy Claim Review process already in existence.
5. Perform Home Evaluations on Catastrophic Claims - We recommend that all catastrophic claims should have a home evaluation conducted with primary

focus on the physical, emotional, financial, vocational, and motivational aspects of each case in depth.

6. Increased Use of Physiatrists – We recommend that the State consider the use of physiatrists for treatment and examinations. Physiatrists specialize in physical medicine and rehabilitation and generally tend not to be surgically oriented. The use of physiatrists can help to reduce the overall costs of claims.
7. Use of “Best” Treating Physician – Based on our review, we understand that in some cases the adjusters initially had reservations regarding whether or not to direct medical care because Vermont law only allows the employer one chance at medical control. We suggest that the State consider the benefits of sending the worker to the “best” treating physician for the condition that needs to be treated and not hold back because of the fear of using up that one time control issue. We believe that insuring the best of care will far outweigh any benefits that may be gained by retaining that one referral control for later use.

As noted earlier, we believe that the State’s claim settlement process is superior to comparable services that exist in the private sector. The following chart provides a comparison of how Vermont’s system compares with the “average” system that exists in the private sector for workers’ compensation claims.

<i>Item</i>	<i>Private Sector</i>	<i>Vermont</i>	<i>Comments</i>
24 Hour Contact with Injured Workers	Does Not Happen	Does Happen Consistently	Leads to better control of medical and worker
Relationship to Injured Workers	Highly Adversarial	Employee Friendly	Leads to less legal intervention
Involvement of Nurses	Never gets nurse involved at the right time	Nurse is involved from the beginning	Leads to positive control of claim
Letters to Physicians	Adjuster writes letters to physicians	Nurse writes letters to physicians	Leads to better, faster and more comprehensive responses from physicians
Communication with Employers	Sparse communication with employer re return to work	Regular updates provided to departments so return to work planning is on going	Leads to less lost time
Use of Surveillance	Surveillance used too much and at the wrong time	Surveillance used sparingly	Leads to cost savings in a service that fails to produce consistent and valuable results
Use of Diary	Diary is accomplished monthly	Diary is based on anticipated actions not time frames	Leads to being on top of things daily